

**DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2**  
Lawrence, Kansas

**STATUTORY BASIS FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

And

**INDEPENDENT AUDITORS' REPORT**

**Long CPA, PA**  
**A Professional Association**  
**Certified Public Accountants**

**DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2**  
Lawrence, Kansas

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# Long CPA, PA

James M. Long, CPA

Shareholder

901 Kentucky, Suite 104  
Lawrence, Kansas 66044  
jlongcpa@sunflower.com

785-312-9091  
Fax 785-312-9249  
785-766-7556

To the Board of Directors  
Douglas County Rural Water District No. 2  
Lawrence, Kansas 66046

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the individual funds of Douglas County Rural Water District No. 2, Lawrence, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the District has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, except for the item described in the preceding paragraph, the financial statements, referred to above, present fairly, in all material respects, the cash and unencumbered cash of Douglas County Rural Water District No. 2, as of December 31, 2010 and the revenues it received and expenditures it paid for the year then ended, on the basis of accounting described in Note 1.

Board of Directors  
Douglas County Rural Water District No. 2

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 12-18 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Douglas County Rural Water District No. 2, Lawrence, Kansas. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, subject to the above qualifications, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental schedules on pages 12 and 13 differ from the information presented in the basic financial statements, which are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas.

*Long CPA, PA*

Long CPA, PA  
A Professional Association  
Certified Public Accountants

March 16, 2011

**DOUGLAS COUNTY RURAL WATER DISTRICT NO.2**  
**SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH**  
For the year ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add	
						Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Proprietary Type Funds							
Water Utility	\$ 583,098	\$	\$ 1,068,837	\$ 1,075,430	\$ 576,505	\$ 3,076	\$ 579,581
Total Reporting Entity	\$ 583,098	\$ 0	\$ 1,068,837	\$ 1,075,430	\$ 576,505	\$ 3,076	\$ 579,581
Composition of Cash							
					Checking Accounts	\$	384,545
					Savings Accounts		
					Petty Cash		
					Certificates of Deposit		195,036
					Total Reporting Entity	\$	579,581

The notes to the financial statements are an integral part of this statement.

**DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2**  
**WATER UTILITY FUND**  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the year ended December 31, 2010

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Charges for services	\$ 362,300
Line installation	22,669
Loan proceeds	664,900
Interest income	5,968
Benefit units	<u>13,000</u>
Total Cash Receipts	<u>1,068,837</u>
<b>EXPENDITURES</b>	
Production	251,892
Capital outlay	823,538
Operating transfers	0
Adjustment for qualifying budget credits	<u>0</u>
Total Expenditures	<u>1,075,430</u>
Receipts Over (Under) Expenditures	(6,593)
Unencumbered Cash, Beginning	583,098
Prior Year Cancelled Encumbrances	<u>0</u>
Unencumbered Cash, Ending	<u><u>\$ 576,505</u></u>

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO.2

Lawrence, Kansas

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – Summary of Significant Accounting Policies

##### Financial Reporting Entity

The Douglas County Rural Water District No. 2 (RWD No. 2) (the District) is a water utility that provides service to 465 and 460 rural customers as of December 31, 2010 and 2009, respectively. The district was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

The following types of funds comprise the financial activities of the District for the year of 2010:

##### Proprietary Funds

Enterprise Funds - To account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO.2

Lawrence, Kansas

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – Summary of Significant Accounting Policies (Continued)

##### Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenues and matured principle and interest payable, and reservations of fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements.

##### Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

##### Use of Estimates

The preparation of modified cash basis financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

##### Cash and Cash Equivalents

For purposes of the statement of cash flows and summary of cash balances, cash and cash equivalents are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.



**DOUGLAS COUNTY RURAL WATER DISTRICT NO.2**  
Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Property and Equipment**

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight line method over an estimated useful life of 30 years. Depreciation and amortization expense totaled \$ 80,086 and \$ 55,957 for the years ended December 31, 2010 and 2009, respectively.

**Memberships**

The District adds the cost of purchasing a benefit unit directly to district equity rather than recognizing those sums as revenues.

**Income Taxes**

In prior years, it has been held that the District is exempt from income taxes under Section 115 of the Internal Revenue Code both because it is a public utility under Section 247 and because it is a political subdivision of the State of Kansas (K.S.A. 82a-601,et.seq.).

In a 1992 published Internal Revenue Service opinion, it was determined that Kansas rural water districts do not qualify as political subdivisions for the purposes of the exemption from payment of FUTA. No claim has been asserted against the District for this tax, nor is the amount of any such claim determinable at this time. Kansas law has been changed, effective March 20, 1992, the result of which causes rural water districts to again qualify as a political subdivision for the purpose of the exemption for payment of FUTA. We are unable to determine at this time whether or not a claim will ultimately be asserted against the District, the likelihood that it would ultimately be held liable for that claim, or the ultimate amount of that claim, if assessed. Consequently, no additional liabilities relating to a possible claim have been recognized.

**DOUGLAS COUNTY RURAL WATER DISTRICT NO.2**  
Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – Deposits and Investments**

**Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2010, the District's carrying amount of deposits, including certificates of deposit, was \$ 579,581 and the bank balance was \$ 610,431 of which \$ 610,431 was covered by FDIC insurance. All balances were collateralized with securities held by the pledging financial institutions' agents in the district's name.

**DOUGLAS COUNTY RURAL WATER DISTRICT NO.2**  
Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – Deposits and Investments (Continued)**

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

**NOTE 3 – Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the county carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

**NOTE 4 – Compliance with Kansas Statutes**

We noted no violations of Kansas statutes during the period under examination.

**NOTE 5 – Kansas Water Resources Board Contract**

The District entered into a water supply contract with the Kansas Water Resources Board to withdraw a predetermined amount of water from Clinton Reservoir each year. The allowed withdrawal is re-determined and the rate charge is set each year. A minimum of 42.5 million gallons must be paid for each year at the established price. Water is also purchased from the City of Lawrence.

**NOTE 6 – Concentration of Credit Risk**

The District currently has all of its certificates of deposit and demand deposits with three financial institutions in Lawrence, Kansas banks. This is a concentration of credit risk related to deposits.

**DOUGLAS COUNTY RURAL WATER DISTRICT NO.2**  
Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – Subsequent Events**

Subsequent events for management's review have been evaluated through March 16, 2011. The date in the prior sentence is the date the financial statements were available to be issued.

**NOTE 8 – Prior Period Adjustment**

The District made a prior period adjustment to account for a 2009 water purchase contract payment which was actually for a 2010 expense. Therefore, the adjustment was made to pre-paid water purchase contract in amount of \$ 10,618.

**NOTE 9 – Long Term Debt**

The following are schedules of the long term debt and current maturities of debt of the District.

## NOTE 9-

## DOUGLAS COUNTY RURAL WATER DISTRICT NO.2

Changes in Long-Term Debt

For the year ended December 31, 2010

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
State Reserve Fund Loan No. 2656	3.42%	6/1/10	\$ 563,021	8/1/30	\$	\$ 749,183	\$ (186,162)	\$ 563,021	\$ 563,021	\$
Total Long Term Debt			\$		\$ 0	\$ 749,183	\$ (186,162)	\$ 563,021	\$ 563,021	\$ 0
		2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	Total
<b>Principal</b>										
General Obligation Bonds	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Special Assessment Bonds										
Certificates of Participation										
Capital Leases										
Revenue Bonds										
SRF Loan		19,292	20,026	20,788	21,579	22,401	125,457	151,215	182,263	563,021
Temporary Notes										
Total Principal		19,292	20,026	20,788	21,579	22,401	125,457	151,215	182,263	563,021
<b>Interest</b>										
General Obligation Bonds										
Special Assessment Bonds										
Certificates of Participation										
Capital Leases										
Revenue Bonds										
SRF Loan		19,092	18,426	17,734	17,017	16,272	69,154	45,787	17,622	221,104
Temporary Notes										
Total Interest		19,092	18,426	17,734	17,017	16,272	69,154	45,787	17,622	221,104
Total Principal and Interest	\$	38,384	38,452	38,522	38,596	38,673	194,611	197,002	199,885	784,125

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## BALANCE SHEETS

As of December 31, 2010 and 2009

	ASSETS	
	2010	2009
Current Assets		
Cash and cash equivalents	\$ 384,545	\$ 83,473
Certificates of deposit	195,036	568,591
Accounts receivable	65,319	28,128
Prepaid expenses	19,412	18,089
Other receivables	1,024	41,820
Total current assets	665,336	740,101
Property, plant, and equipment, net	2,341,551	1,695,567
Other Assets		
SRF loan fees net accumulated amortization	9,014	-
SRF loan reserve	74,919	-
Total other assets	83,933	-
Total Assets	\$ 3,090,820	\$ 2,435,668

## LIABILITIES AND DISTRICT EQUITY

Current Liabilities		
Accounts payable	\$ 3,076	\$ 66,696
Accrued interest payable	8,023	
Payroll and sales taxes payable	2,335	2,270
Current portion of long term debt	19,292	
Total current liabilities	32,726	68,966
Long Term Liabilities		
SRF loan, net of current portion long term debt	543,729	
Total liabilities	576,455	68,966
District Equity	2,514,365	2,366,702
Total liabilities and member's equity	\$ 3,090,820	\$ 2,435,668

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## STATEMENTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

	2010	2009
<b>Revenues</b>		
Water sales	\$ 362,035	\$ 325,683
New construction	57,520	
Line repair reimbursement	149	660
Materials and supplies	304	155
Service review	400	300
Customer returns	(92)	
	<u>420,316</u>	<u>326,798</u>
<b>Expenses</b>		
Water purchased	139,024	117,132
Salaries and wages	68,795	66,940
Contract labor	3,384	11,790
Repairs and maintenance	11,683	10,951
Utilities and telephone	11,283	11,183
Insurance and bonds	8,564	9,778
Office supplies	5,683	6,665
Professional and other services	9,304	6,931
Payroll taxes	5,263	5,593
Dues and fees	344	400
Depreciation	79,735	55,957
Amortization	351	
Mileage and auto expense	6,259	6,128
Board expenses	459	619
Continuing education	1,392	128
Operating supplies	7,199	3,907
Rental expense	1,404	1,373
License and fees	804	692
Bank fees	302	200
Returned checks	229	62
	<u>361,461</u>	<u>316,429</u>
Net income from operations	<u>58,855</u>	<u>10,369</u>
<b>Other Income (Expense)</b>		
Miscellaneous income	2,708	1,776
Interest income	3,260	13,535
ARRA principal forgiveness	186,162	
Interest expense	(16,243)	(5)
Loss on investment	(100,000)	
Penalties	(79)	(17)
	<u>75,808</u>	<u>15,289</u>
Other Income/Expense, Net		
Net Income	\$ <u>134,663</u>	\$ <u>25,658</u>

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## STATEMENTS OF CHANGES IN DISTRICT EQUITY

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
District Equity - Beginning of year	\$ 2,366,702	\$ 2,315,044
Memberships	13,000	26,000
Net Income	<u>134,663</u>	<u>25,658</u>
District Equity - End of year	\$ <u><u>2,514,365</u></u>	\$ <u><u>2,366,702</u></u>

The notes to the financial statements are an integral part of this statement.



## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 134,663	\$ 25,658
Adjustments to Reconcile Net Income to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and amortization	80,086	55,957
(Increase) decrease in accounts receivable	(37,191)	(3,792)
(Increase) decrease in other receivables	40,796	(35,319)
(Increase) decrease in prepaid expenses	(1,324)	(12,618)
Increase (decrease) in accounts payable	(63,620)	55,700
Increase (decrease) in accrued interest	8,023	
Increase (decrease) in taxes payable	65	68
<b>Net Cash Provided By Operating Activities</b>	<u>161,498</u>	<u>85,654</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of benefit units	13,000	26,000
Proceeds from certificates of deposit	373,555	5,485
Loss on investments	100,000	
Purchase of assets	(825,719)	(628,254)
<b>Net Cash Provided By Investing Activities</b>	<u>(339,164)</u>	<u>(596,769)</u>
<b>Cash Flows from Financing Activities</b>		
Loan proceeds	749,183	
SRF loan fees	(9,365)	
SRF loan reserve	(74,918)	
ARRA principal forgiveness	(186,162)	
<b>Net Cash Provided By Financing Activities</b>	<u>478,738</u>	<u>-</u>
<b>Net Increase (Decrease) In Cash</b>	301,072	(511,115)
<b>Cash - Beginning of Period</b>	<u>83,473</u>	<u>594,588</u>
<b>Cash - End of Period</b>	<u>\$ 384,545</u>	<u>\$ 83,473</u>

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2010

Property Covered	Coverage	Expires
Commercial property:	80% Coinsurance	10/6/2011
Radio and antenna	16,322	
Property in the open	16,208	
Building #2 (42'x50' metal shed)	54,009	
Property in the open	4,052	
Booster pumps	32,642	
Property in the open	10,130	
Elevated water tower	732,922	
Extra expense	90,000	
Personal property in office	14,000	
Commercial General Liability:		10/6/2011
Aggregate Limit -		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	1,000,000	
Fire damage (per fire)	100,000	
Medical expense (per person)	5,000	
Inland marine		10/6/2011
Miscellaneous inventory	35,000	
Commercial Auto:		10/6/2011
Liability insurance (per loss)	1,000,000	
Workmen's compensation:		10/6/2011
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		10/6/2011
Per loss	250,000	
Directors' and Officers' Liability:	1,000,000	10/6/2011

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## SCHEDULE OF FIXED ASSETS ADDITIONS AND RETIREMENTS

As of December 31, 2010

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Rural Water system	\$ 1,659,920	\$ 823,538	\$ 100,000	\$ 2,383,458
Elevated water tower	732,121			732,121
Land	<u>19,500</u>			<u>19,500</u>
	2,411,541	823,538	100,000	3,135,079
Less Accumulated depreciation	<u>713,793</u>	<u>79,735</u>		<u>793,528</u>
Proj Water system	\$ <u><u>1,697,748</u></u>	\$ <u><u>743,803</u></u>	\$ <u><u>100,000</u></u>	\$ <u><u>2,341,551</u></u>

The notes to the financial statements are an integral part of this statement.

## DOUGLAS COUNTY RURAL WATER DISTRICT NO. 2

## BOARD MEMBERS AND OFFICERS

As of December 31, 2010

		Term Expires
Chairman:	Arthur Miles 1278 N. 900 Road Lawrence, KS 66046	2013
Vice-Chairman:	Chip Hornberger 933 N. 500 Road Lawrence, KS 66006	2012
Secretary:	Rick Hird 856 E. 1150 Road Baldwin, KS 66006	2011
Treasurer:	Mike Flory 1921 Quail Run Lawrence, KS 66047	2013
Board Member:	John Stevens 795 E 1500 Road Lawrence, KS 66046	2012

The notes to the financial statements are an integral part of this statement.

